

Accounting Theory and Financial Reporting

New Syllabus

Course Title: Accounting Theory and Financial Reporting

Course No: ACC 614

Nature of Course: Specialization

Duration of Course: 100 Lecture Hours

Duration of the Class: 60 minutes

Full Marks: 100

Pass Marks: 40

Course Objectives

The course aims to cover the accounting theories and their application, practical & conceptual issues of general purpose financial statements for reporting financial position and performance and financial analysis for performance appraisal of business enterprises including financial intuitions. It also aims to provide exposure to disclosure requirement for financial statements and reporting, accounting standards issued by Nepal Accounting Standards Board and International Accounting Standard Board.

Course Description

The course is intended to provide in depth knowledge in theoretical aspect in the preparation or use of corporate financial reports whether as accountants, financial executives, auditors, financial analysts, actuaries or legal advisors. The course also covers financial reporting and analysis of business transactions, events and structures. Topics include accounting theory, reporting and analysis of earning, financial positions and changes in ownership equities, corporate financial reporting, financial statements based on price-level changes and contemporary issues in financial reporting.

Course Contents

Unit 1: Introduction LH 20

Concept and Objectives of Accounting Theory. Approaches to Accounting Theory. Classification of Accounting Theory. Origin of Accounting Theory: Influence of government regulatory bodies; Influence of taxation; Structure of Accounting Theory: accounting principles, concepts and conventions. External financial reporting: Meaning of general purpose financial statement, nature, objectives and qualitative characteristics of financial statements. Accounting standards: National and International. Standard setting bodies: responsibilities and processes, national and international accounting and reporting standards (mandatory, recommendatory, exposure draft), interpretations, framework for preparation and presentation of financial statements, recognition and measurement of elements of financial statements, departure from current corporate practices.

Unit 2: Reporting and Analysis of Earnings and Net Income LH 10

Concept, basis, timing & recognition of revenue; Matching concept, allocation and recognition of expenses; Concepts and features of gains and losses; Income statement: concept and objectives, preparation, presentation and analysis (performance evaluation relating to revenue and income, expenses and income) for companies including financial institutions in accordance with relevant accounting standards and directives by monitoring agencies. Concepts, importance and Objectives of net income, accounting concept of net income and its measurements, economic concept of net income, value added concept of income. Measurement of net income to parties: investors, shareholders & equity shareholders, basis of measurement of income, analysis of changes in income. Case analysis of income statement presented by Nepalese listed companies

Unit 3: Reporting and Analysis Financial Position LH 5

Nature of business assets: Long term fixed assets: tangible, natural resources, intangible, and fictitious assets including intellectual property rights, valuation and amortization of wasting assets and intangible assets, valuation of investment. Costs and choice of depreciation methods considering their tax implications. Current assets: concept, need and objectives, monetary and non-monetary, inventory valuation, justification of assets owned from performance evaluation of the organization, and measurement of assets. Liabilities: concept

and objectives, long-term and short-term, types, conversion and repayment, tax implications using debt. Current liabilities: concept, need and importance, monetary and non-monetary, lease: nature and types. **Ownership equity:** common stock, preference stock, retained earnings and reserve and surplus. Preparation and presentation of balance sheet and financial position analysis; Disclosure in financial statements and applications of relevant accounting standards.

Unit 4: Reporting and Analysis of Changes in Stockholders' Equities LH 20

Need and importance of stockholders' equity; Changes in stockholders' equity: Increases in share capital, redemption of preferred stock, stock dividend and stock split, and stock warrants, Stock Listing: meaning, benefits, conversion of debt into shares and stocks, Sweat equity shares, shares buy-back, earnings, issue of bonus shares, business combinations and reconstruction and investment in subsidiary companies and their accounting treatment, and reporting, **analysis** of effect on earnings and EPS owing to changes in stockholders' equity, appraisal of the impact of changes in accounting policies and the regulatory framework on shareholders' funds.

Unit 5: Corporate Reporting and Disclosure in Financial Reporting ... LH 20

Nature and objectives of external financial reporting, issue in financial reporting; accounting information provided by financial statements, financial reporting for tax purposes: statement of corporate taxable income. Deferred tax: permanent and temporary differences. Corporate Financial reports: Income statement, Balance sheet, Changes in owners' equity and Cash flow statement as per Company Act and regulatory framework like NRB, SEBON and Insurance Board Directives. Director's and auditor's reports; disclosure required in financial reporting as per national and international accounting and financial reporting standards, evaluation of disclosure practices in financial reporting, transparency in financial statements. Currency translation of financial statement of foreign operations. Issues related to consolidation of financial statements, interim, segment and group reporting, valuation of goodwill and shares, differences in accounting standards followed.

Unit 6: Reporting the Price Level Changes LH10

Effect of price level change in financial reporting; Nature of price level changes: general, specific and relative price level changes; Limitations of historical cost accounting; Reporting financial statements under current cost accounting and general purchasing power accounting; Application of relevant accounting standards

Unit 7: Contemporary Issues in Accounting LH 15

Corporate Governance: governance systems and contemporary mechanism, accounting issues arising from corporate failures, business ethics and financial reporting; Corporate Social performance and responsibility accounting; social disclosure requirements; Not-for-profit accounting: features and accounting standards and reporting for performance appraisal. Human resources accounting (HRA) and reporting; factors leading to development of HR Accounting and reporting, HR Accounting and reporting in Nepal; Environmental accounting and reporting Internet financial reporting: possibilities and challenges.

Basic References

- Handriksen and Breda. (1991). *Accounting Theory* (5th Edition). New York: Irwin McGraw Hill.
 Porwal, I.S. (1986). *Accounting Theory: An introduction*. New Delhi: Tata McGraw Hill Publishing Co.

Supplementary Readings

- Accounting Standards Board. (2003). *Nepal Accounting Standards*. Kathmandu: ASB.
 Belkani, A. (NA). *Accounting Theory* (3rd Edition). USA: Harcourt Brace Jovanovich.
 Bhattacharya, A.K. (2006). *Indian Accounting Standards*. New Delhi: Tata McGraw-Hill Publishing Co. Ltd.
 Bloom and Elgers. (1995). *Foundations of Accounting Theory and Policy*. USA: HB College Publishers.
 Greunning and Keen. (2000). *International Accounting Standards. A practical guide*. USA: World Bank.
International Financial Reporting Standards.
 Nobes and Parker. (2002). *Comparative International Accounting* (First Indian Reprint). New Delhi: Pearson Education (Singapore) Pte, Ltd.
 Rathor, S. (1996). *International Accounting*. New Delhi: Prentice-Hall of India Pvt. Ltd.
 Revsine, Collins and Johnson. (1999). *Financial Reporting and Analysis*. New Jersey: Prentice Hall, Upper Saddle River.

New Model Questions

Subject: Accounting Theory and Financial Reporting (ACC 614)

Level: MBS2nd Year

Faculty: Management

Full Marks: 100

Pass Marks: 40

Candidates are required to give their answer in their own words as far as practicable.

Figures in the margin indicate full mark.

1. What is accounting theory? What are its objectives?
2. What do you mean by Accounting Standard? Briefly explain about the Accounting Standard Board of Nepal.
3. Following information is given:

| Year | Yearly expected Remuneration | Accounting rate of return | Rate of return in the economy |
|------|------------------------------|---------------------------|-------------------------------|
| 1 | 450,000 | 12 | 15 |
| 2 | 550,000 | 14 | 15 |
| 3 | 650,000 | 16 | 20 |
| 4 | 750,000 | 18 | 20 |

Discount rate applicable is 12%

Required: PV of Human Resources using the Hermanson's adjusted discount of future wage model [4 + 8]

4. A manufacturing company after closing books at December 31, 2010 the following balance of account were submitted to you for preparation of Balance Sheet.

| | | | |
|----------------------------|----------|-----------------------------------|---------|
| Account payable | Rs.33200 | Account receivable | Rs.9500 |
| Bond payable 14% | 25,000 | Accrued expenses | 800 |
| Capital stock Rs.100 per | 70,000 | Cash | 10,000 |
| Factory equipment | 31,200 | Earned surplus (To be determined) | |
| Finished goods | 12,100 | Investments | 13,000 |
| Raw materials | 9600 | Provision for bad debts | 500 |
| Provision for depreciation | 9000 | Rent paid in advance | 3000 |
| Sinking fund | 7000 | Land for plant site | 15,000 |
| Working in progress | 23,300 | Note receivable | 6600 |

Two third of the depreciation relates to factory equipment and one third of office equipment of the balance in the investments account Rs.4000 will be converted to cash during the coming year, the remainder represents a long term investment. Rent paid in advance is for the next year. The sinking fund is being accumulated to retire the bonds at maturity.

Required:

1. Balance sheet using preferred format, comply with the Company Act Nepal and according standard including notes required.
2. Current ratio and Debt equity ratio. [6 + 2 = 8]
5. Natural Company Ltd. is facing severe capital storage due to last two years of heavy losses resulting in a deficit at the December 31, 2010 year end. One option that seems quite attractive is an internal reorganization which is permissible under the law.

You are provided the following summarized balance sheet at December 31, 2010 and other information concerning the fair value of assets.

| Assets | Book value | Fair value |
|--------------------|------------|------------|
| Asset Cash | Rs.8500 | Rs.8500 |
| Account Receivable | 45,000 | 45,000 |
| Plant | 15,00,000 | 10,00,000 |
| Land | 500,000 | 800,000 |
| Equipments (net) | 40,00,000 | 35,00,000 |
| Total Assets | 60,53,500 | 53,53,500 |

| Liabilities | Amount |
|----------------------------|-----------|
| Current Liabilities | 80,000 |
| Long term Liabilities | 500,000 |
| Common stock at par | 30,00,000 |
| Additional paid in Capital | 35,00,000 |
| Retained earnings | (1026500) |
| | 6053500 |

Required:

- (i) Journal entries necessary to accomplish a corporate readjustment and adjustment to be made Common stock additional paid in capital.
- (ii) Post reorganization Balance sheet [4 + 4 = 8]

OR

The following are the profit and loss account and balance sheet of a US branch of Nepal Garments Ltd. A Nepalese Garment Exporter

Profit and loss account for the year ended December 31, 2010

| Particulars | Details | Amount |
|---------------------------|----------|------------|
| Sales | | Rs.375,000 |
| Less: Cost of goods sold: | | |
| Opening stock | 70,000 | |
| Purchases | 150,000 | |
| Less: Closing stock | (40,000) | 180,000 |
| Gross profit | | 195,000 |
| Less operating Expenses: | | |
| Depreciation | 14,000 | |
| Office Expenses | 60,000 | 74,000 |
| Net profit | | 121,000 |

Balance sheet as on December 31, 2010

| Assets | | Rs. |
|---------------------------------|---------|---------|
| Cash | | 40,000 |
| Account receivable | | 80,000 |
| Closing stock | | 40,000 |
| Fixed assets less: Depreciation | | 126,000 |
| Net assets employed | | 286,000 |
| Liabilities | | |
| HO Current a/c | 165,000 | |
| Opening balance | 121,000 | |
| Net profit | | 286,000 |

Additional information

Fixed assets were acquired on the date when the exchange rate was \$1 = NRs70

Exchange rate at the beginning of the year was Rs.70 and at the end of the year, Rs.80 per \$

Required: Financial statements, stated on \$ value

[4 + 4 = 8]

5. A Ltd. Acquired 1600 ordinary shares of Rs.100 each in B Ltd. On December end 2010. The summarized balance sheets of A Ltd. And B Ltd. as on that date are given as under.

| Liabilities | A Ltd. | B Ltd. | Assets | A Ltd. | B Ltd. |
|--|----------|---------|----------------------|---------|---------|
| Capital: Ordinary share of Rs.100 each | 5,00,000 | 200,000 | Land & Building | 150,000 | 180,000 |
| Capital Reserve | - | 120,000 | Plant and Machinery | 240,000 | 10,9400 |
| General Reserve | 240,000 | - | Investment in B Ltd. | 340,000 | |

| | | | | | |
|---|----------|---------|--|----------|----------|
| P/L Account | 57,200 | 36,000 | Stocks | 120,000 | 36,000 |
| Bank overdraft | 80,000 | - | Debtors | 44,000 | 40,000 |
| Bills payable (Including Rs.4000 to A Ltd.) | | 8400 | Bills Receivable (Including Rs.3000 from B Ltd.) | 14,800 | - |
| Creditors | 471,000 | 9000 | Cash at bank | 14,500 | 8000 |
| | 9,24,300 | 373,400 | | 9,24,300 | 3,73,400 |

You are required to consider the following additional information:

- (a) B Ltd. had made a bonus issue of one ordinary share for every two shares held by its shareholders on December 31, 2010. Effect has yet to be given in the accounts for this issue.
- (b) The directors are advised that Land Building of B Ltd. are undervalued by Rs.20,000 and that of plant and Machinery are overvalued by Rs.10,000.
- (c) Sundry Creditors of A Ltd includes Rs.12,000 due to B Ltd.

Required:

Consolidated balance sheet as on December 31, 2010 in suitable format complying Company Acts Nepal and Accounting Standards

[2 + 2 + 4 + 2 = 10]

OR

The comparative Balance Sheets and Income Statement for the year ending December 31, 2010 of Lovely Commercial Bank are given below.

| Liabilities | 2009 | 2010 | Assets | 2009 | 2010 |
|------------------------------|-----------|-----------|---|----------|-----------|
| Share capital | 500,000 | 7,00,000 | Cash at Bank | 126,000 | 150,000 |
| Reserve fund | 60,000 | 80,000 | Deposit with NRB | 246,000 | 26,78,000 |
| Deposits a/c | 9,70,000 | 12,60,000 | Furniture & fitting | 1,16,000 | 120,000 |
| P/L a/c.... | 78,500 | 82,600 | Money at short notice | 1,15,000 | 66,000 |
| Other Current Liabilities | 130,000 | 46,000 | Investments | 680,000 | 891,000 |
| Bills payable | 475,000 | 71,000 | Loan & advances | 453,000 | 6,88,000 |
| | | | Other (Non Operational fixed asset) | 50,000 | 56,800 |
| | 17,86,000 | 22,39,600 | | 1786,000 | 22,39,600 |

Income Statement for the year end at December 31, 2010

| | | | |
|------------------------------|----------|--|----------|
| To interest on deposits | 251,100 | By Interest and Commission etc | 6,93,000 |
| To Salaries & allowance | 240,000 | By Dividend & Brokerage | 73,800 |
| To Rent, tax & Insurance | 87,200 | By Miscellaneous receipts (Loan previously written off) | 8900 |
| To Stationery and Printing | 66,050 | | |
| To Depreciation on Furniture | 24,600 | | |
| To Income Tax Paid | 15,900 | | |
| To Net Profit | 90,850 | | |
| | 7,75,700 | | 7,75,700 |
| To Reserve fund | 20,000 | By Net profit | 90,850 |
| To Dividend paid | 66,750 | By P/L a/c balance | 78,500 |
| To Balance c/d | 82,600 | | |
| | 169,350 | | 1,69,650 |

Required:

Cash flow statement in proper format complying Company Act Nepal NRB Directories and Accounting standard [4 + 3 + 2 + 1 = 10]

7. A Chemical Industry located in a community provide the following expenses relating to Social Lost and Benefits for the year ending 2010.

- I. Expenses made to provide benefits facilities to the Industry level employees.

| | |
|--|------------|
| Expenses relating to | |
| Medical and hospital facilities | Rs.876,000 |
| Education & Child care facilities | 371,000 |
| Canteen, Sports and recreation facilities | 235,00 |
| Housing & transportation facilities | 1242,900 |
| Water, sanitation and electricity facilities | 440,200 |
| Employees retirement and leave facilities | 464,000 |
| Employees career development facilities | 270,000 |

- II. Expenses made to provide facilities to community level:

| | |
|--------------------------------|-----------|
| Expenses relating to | |
| Local taxes and municipality | Rs.96,000 |
| Community facility improvement | 320,000 |
| Community job enrichment | 472,000 |

- III. Expenses made to provide benefit to General Public level:

| | |
|--------------------------|------------|
| Expenses relating to | |
| Taxes paid to Government | Rs.930,000 |

Cost Incurred:

| | |
|---|------------|
| To industry staff as a result of voluntary work | Rs.290,000 |
| To industry community as a result of increasing Living cost because of present chemical industry | 160,000 |
| To general public because of Government Services consumption to Electricity, Transport, Communication, and Banking facilities | 573,000 |

Required:

Social Income Statement showing Net Social Income benefits to

- (a) Staff Employees
(b) Community, and
(c) General public

[4 + 3 + 3 = 10]

8. Following is the Income Statement prepared by the Company Accountant.

**Group Corporation
Income Statement
For the year ended December 31, 2010**

| Particulars | Details | Amount |
|---|---------|--------------|
| Net Sales | | Rs.20,00,000 |
| Less: cost of sales | | 950,000 |
| Gross profit | | 10,50,000 |
| Less: Selling general and distribution expenses | | 5,50,000 |
| Operating income | | 500,000 |
| Other revenues (Expenses): | | |
| Interest Expenses | 60,0000 | |
| Royalty & Dividend Income | 42,000 | 10,2000 |
| Taxable Income | | 482,000 |
| Provision for Income taxes | | 241,000 |
| After tax Net Income | | 241,000 |

Statement of Retained Earnings

| | |
|---------------------------|---------|
| Opening Retained Earnings | 720,000 |
| Net Income for the year | 241,000 |

| | |
|--|---------|
| Divisible Income | 961,000 |
| Less: Dividend declared and paid | 411,000 |
| Retained Earnings at the end of the year | 550,000 |

Required:

- (a) Briefly explain the basic accounting concepts by above the Income statement.
 (b) Explain in brief the nature of contains in above the Income Statement. [5 + 5 = 10]
9. What is financial and why it is required to be prepared statement as per national accounting and financial reporting standard in Nepal. [3 + 4 = 15]
10. The following is the Balance sheet of S Co. Ltd. as on December 31, 2010.

| Liabilities | Amount | Assets | Amount |
|---------------------------------------|---------|---------------------|---------|
| 3500 Equity share of Rs.100 each | 350,000 | Land and Building | 240,000 |
| 1300 Preference shares of Rs.100 each | 130,000 | Plant and Machinery | 150,000 |
| 6% Debentures | 00,000 | Sundry Debtors | 30,000 |
| Sundry Creditors | 150,000 | Stock in Trade | 80,000 |
| | | Profit and Loss a/c | 130,000 |
| | 730,000 | | 730,000 |

Shareholder's and Creditors Committee resolved that the company by liquidated voluntarily and a new company named ABC. Ltd be formed with an authorized capital of Rs.10,00,000 all in equity shares of Rs.100each. The following proposals for reconstruction were approved by the court.

- (a) One equity share of Rs.50 paid up in the new company to e issued to each equity share in the old company and balance to be paid in cash.
 (b) Two equity shares of Rs.50 paid u/s in the new company to be issued for each preference share in the old company.
 (c) The debentures holders to be satisfied by payment one-fourth amount in cash and the balance by issue of equity shares of Rs.100 fully paid up.
 (d) The creditors are to be discharge one-third of their liability in cash.
 (e) The assets of the company to be realized as follows:
 Land and building Rs.2,75,000, Plant and Machinery Rs.120,000, Stock Rs.70,000 and Sundry Debtors Rs.130,000.

Required:

- (i) Purchase Consideration (ii) Entries in the book of S Company
 (iii) Realization A/c (iv) Entries in the book f ABC Ltd, and
 (v) Opening balance sheet in ABC Ltd in proper format complying company Act and Accounting Standards [2 + 5 + 2 + 4 + 2 = 15].

OR

Following are the balance sheets and profit and loss a/c of a company prepared on the basis.

HC base Balance sheets

| Liabilities | 2009 | 2010 | Assets | 2009 | 2010 |
|-------------------|-----------|-----------|--------------|-----------|-----------|
| Share Capital | 10,00,000 | 10,00,000 | Fixed Assets | 10,00,000 | 10,00,000 |
| P/L A/c | 210,000 | 230,000 | Less: | - | (100,000) |
| | | | Depreciation | | |
| Sundry Creditors | 5,00,000 | 390,000 | Inventory | 400,000 | 320,000 |
| Provision for Tax | 400,000 | 80,000 | Debtors | 300,000 | 400,000 |
| Proposed Dividend | 50,000 | 10,000 | Cash | 100,000 | 180,000 |
| | 18,00,000 | 18,00,000 | | 18,00,000 | 18,00,000 |

HC based Income Statement for the year ending 2010

| Particulars | Details | Amount |
|--------------------------------|-----------|----------------|
| Sales | | Rs 30,00,000 |
| Less: Cost of goods sold: | | |
| Opening stock | 4,00,000 | |
| Add: Purchases | 2320,000 | |
| Less: Closing stock | (320,000) | 240,000 |
| Gross profit | | 600,000 |
| Less: Depreciation | 100,000 | |
| Office operating expenses | 300,000 | 400,000 |
| NIBT | | 200,000 |
| Less: Provision for tax 40% | | 80,000 |
| NIAT | | 120,000 |
| Add: Opening P/L a/c balance | | 210,000 |
| | | 330,000 |
| Less: Proposed dividend | | 100,000 |
| Closing retained profit | | 230,000 |

Additional information:

The public index in respect of plant went up to 150 at the end of 2010 which was 120 at the end of 2009 and 100 at the time of installation.

The cost of purchases gone up by 30 percent during the year 2010 and by 10 percent in 2009

Required:

Current cost income statement and balance sheet for the year ended 2010 [7 + 4 + 4 = 15]

Exam 2071

Group A

Attempt all the questions.

1. What is financial statement reporting? Explain in brief the qualitative characteristics of financial statements. [2 + 6 = 8]
2. What do you mean by Accounting Standard? Explain in brief the formation of Accounting Standard Board of Nepal. [3 + 5 = 8]
3. Following information is given:

| Year | Estimated annual remuneration | Accounting rate of return | Rate of return in the economy |
|------|-------------------------------|---------------------------|-------------------------------|
| 1 | 650,000 | 12 | 15 |
| 2 | 850,000 | 14 | 15 |
| 3 | 1050,000 | 16 | 20 |
| 4 | 1300,000 | 18 | 20 |

Discount rate applicable is 10%.

Required:

- a. Present value (PV) of annual remuneration
 - b. Present value (PV) of human resources using Hermanson's adjusted discount of future remuneration. [4 + 4 = 8]
4. The balance sheet of a company reported the following on December 31, 2010.

Stockholder's equity

| | |
|--|------------|
| 4% Preferred stock @ Rs 10 par, 1000 shares authorized and issued (Redemption value Rs 110,000) | Rs 100,000 |
| Common stock at par Rs 5 stated value, 100,000 shares authorized, 50,000 shares issued | 250,000 |
| Paid in capital in excess of par or stated value, common stock | 239,500 |
| Retained earnings | 395,000 |

Less: Treasury stock, common (1000 shares)

(8,000)

Total shareholder's equity

976,500**Required**

- a. What is the total amount of annual preferred dividend?
 b. How many shares of common stock are outstanding?
 c. Compute the book value per share of the common stock. No preferred dividends are in arrears and the company has not yet declared the 2010, dividend. [2+2+4=8]
5. The following income statement items are taken from the record of a Computer Traders, sales of computer parts, for the year ended December 31, 2010

| | |
|---|------------|
| Sales revenue | Rs 468,750 |
| Rent expense office | Rs 14,000 |
| Telephone expense | Rs 6,000 |
| Income tax expense | Rs 42,000 |
| Cost of goods sold | Rs 312,500 |
| Salaries expense | Rs 24,000 |
| Interest expense | Rs 12,500 |
| Depreciation expenses | Rs 21,000 |
| Utilities expense | Rs 6,000 |
| Advertising expense | Rs 4,580 |
| Retained earnings opening | Rs 23,600 |
| A part of fixed asset was sold at a profit of | Rs 3,420 |

Dividends of Rs. 30,000 were declared and paid during the year

Dividend on investment earned during 2010 of Rs 21,580

Sales of trading securities common stock of Nabil Bank for Rs 60,420 which was purchased at a price of Rs 65,000

Required

- a. Income statement using preferred format comply with the Company Act and Accounting Standard including notes required
 b. Statement of retained earnings
 c. Earnings per share assuming no of common stock issued and outstanding 10,000 shares [4+2+2=8]

OR

Nepal Garment Ltd., a Branch of US Garment Incorporation provides the following financial statements for the year ended December 31, 2014.

Income statement for December 31, 2010

| Income statement | Details | Amount |
|---------------------------------|---------|------------|
| Sales revenues | | Rs.645,000 |
| Less: Cost of goods sold | | 230,000 |
| Gross profit | | 415,000 |
| Less: Expenses: Office expenses | 150,000 | |
| Depreciation | 60,000 | 210,000 |
| Net profit | | 205,000 |

Balance Sheet as on December 31, 2010

| | Amount |
|-------------------------------------|---------|
| Assets: Cash | 70,000 |
| Account receivable | 120,000 |
| Closing stock | 30,000 |
| Net fixed assets | 120,000 |
| Total Assets | 340,000 |
| Liabilities: OH current a/c: | |
| Opening balance | 159,000 |
| Net profit | 113,000 |
| | 272,000 |

Additional Information:

Fixed assets acquired on the date when the exchange rate was \$1 = Rs.85.

Exchange rate at the beginning of the year was Rs.95 and at the end of the year 2014, Rs.105 per US \$1.

Required: Financial Statement stated on US \$ value.

[4 + 4=8]

6. H. Ltd. acquired 1500 ordinary shares of Rs.100 each in S Ltd. on December end 2010. The summarized Balance Sheet of H.Ltd. & S Ltd. as on that date were given as below:

| | H Ltd. (Rs.) | S Ltd. (Rs.) |
|---|----------------|----------------|
| Assets: | | |
| Land and building | 200,000 | 200,000 |
| Plant & machinery | 190,000 | 99,400 |
| Investment in S Ltd. | 320,000 | — |
| Stock | 140,000 | 26,000 |
| Account receivables | 42,000 | 30,000 |
| Bills receivable | 17,800 | — |
| Cash at bank | 14,500 | 18,000 |
| Total assets | 924,300 | 373,400 |
| Liabilities: | | |
| Share capital | 450,000 | 200,000 |
| General reserve | 290,000 | 120,000 |
| P/L a/c | 137,300 | 37,000 |
| Bills payable (Rs.4000 payable to H Ltd.) | — | 7400 |
| Creditors | 47,000 | 9000 |
| Total liabilities | 924,300 | 373,400 |

Consider the following information:

- S Ltd. had made a bonus issue of three ordinary shares for every five share held by its shareholders on Dec. 31, 2010 for capitalizing the general reserve. Effect has yet to be given in the accounts for this issue.
- The directors are advised that land and building of S Ltd. are undervalued by Rs. 25,000 and that of plant & machinery are overvalued by Rs. 15,000.

Required:

Consolidated Balance Sheet as on December 31, 2010 in suitable format complying company Acts and Accounting Standard.

[2.5 + 2.5 + 5 = 10]

OR

The Income Statement of the year and the Balance Sheets of last year and this year had been given below:

Income Statement

| Particulars | Amount |
|---|----------------|
| Interest Income | 1,200,000 |
| Less: Interest on deposits | 405,000 |
| Gross margin | 795,000 |
| Less: Employee expenses | 315,000 |
| Other operating expenses | 180,000 |
| Depreciation | 75,000 |
| Exchange fluctuation loss | 45,000 |
| Provision for tax | 60,000 |
| Provision for dividend | 30,000 |
| Premium on redemption of debenture | 15,000 |
| Net profit before other income | 75,000 |
| Add: Gain on sale of machine | 30,000 |
| (Cost Rs. 150,000 accumulated depreciation Rs 60,000) | |
| Retained earning | 105,000 |

Balance Sheets

| Liabilities & Capital | Year I (Rs.) | Year II (Rs.) | Assets | Year I (Rs.) | Year II (Rs.) |
|------------------------|-----------------|------------------|------------------|-----------------|------------------|
| Share capital | 750,000 | 1,050,000 | Fixed assets | 1,350,000 | 1,725,000 |
| Share premium | 75,000 | 105,000 | Deposit with NRB | 75,000 | 120,000 |
| 12% Debenture | 300,000 | 150,000 | Money at calls | 75,000 | 105,000 |
| Provision for tax | 30,000 | 60,000 | Cash at bank | 30,000 | 60,000 |
| Provision for dividend | 15,000 | 30,000 | | | |
| Deposit | 60,000 | 195,000 | | | |
| Acc. depreciation | 300,000 | 315,000 | | | |
| Retained earning | — | 105,000 | | | |
| | 1,530,000 | 2,010,000 | | 1,530,000 | 2,010,000 |

Required: Cash Flow Statement in proper format complying Company Act, NRB Directives and Accounting Standards [4 + 3 + 2 + 1 = 10]

7. A Cement Industry located in a community provides the following expenses relating to Social Lost and Benefits for the year ending 2014.

- I. Expenses made to provide benefits facilities to the Industry level employees.

| | |
|--|-------------|
| Expenses relating to | |
| Quarter facilities | Rs. 624,500 |
| Medical and hospital facilities | 438,000 |
| Education & Child care facilities | 250,000 |
| Sports and recreation facilities | 175,000 |
| Water and electricity facilities | 220,200 |
| Employees retirement career development facilities | 270,000 |
- II. Expenses made to provide facilities to community level:

| | |
|--------------------------------|------------|
| Expenses relating to | |
| Local taxes | Rs. 76,000 |
| Community facility improvement | 240,000 |
| Community job enrichment | 320,000 |
- III. Expenses made to provide benefit to General Public level:

| | |
|-----------------------|-------------|
| Expenses relating to | |
| Government taxes paid | Rs. 842,000 |

Cost Incurred:

- To industry employees as a result of voluntary work Rs. 160,000
- To industry community as a result of increasing living cost Rs. 140,000
- To general public because of Government services consumption Rs. 434,000

Required: Social Income Statement showing Net Social Income benefits to

- a. Staff Employees
 - b. Community
 - c. General public
- [4 + 3 + 3 = 10]
8. Company Accountant prepared the Income Statement as follows:

A Retail Company Income Statement
For the year ended Dec. 31, 2013

| Particulars | Rs. |
|--|---------|
| Net sales | 860,000 |
| Less: Cost of goods sold | 240,000 |
| Gross profit | 620,000 |
| Less: Operating expenses: | |
| Selling, distribution & general administrative expense | 410,000 |
| Operating income | 210,000 |
| Less/ Add other revenue (expenses) | |
| Rent, interest, dividend & royalty income | 20,000 |

| | | |
|--|--------|---------|
| Interest expenses | 18,000 | 2,000 |
| Less: Provision for income tax | | 52,000 |
| Net income after tax | | 156,000 |
| Statement of Retained earnings | | |
| Opening retained earnings | | 126,000 |
| Net income of the year | | 156,000 |
| Divisible income | | 282,000 |
| Less: Dividend declared & paid | | 172,000 |
| Retained earnings at the end of the year | | 110,000 |

Required:

- Briefly explain the basic accounting concepts fulfilled by the income statement
 - Explain in brief the nature of contents in the income statement
9. What is financial statement and why it is required to be prepared for every organization as per national accounting and financial reporting standard in Nepal. [3 + 6 + 6 = 15]
10. The Balance Sheet of Metro Company as on Dec 31, 2014 is as follows.

| Liabilities | Amount | Assets | Amount |
|--------------------------------|-----------|----------------------|-----------|
| 10,000 Equity shares of Rs.100 | 1,000,000 | Plant and Machinery | 1,015,000 |
| each General reserves | 100,000 | Investment | 75,000 |
| Retained earnings | 75,000 | Inventory | 60,000 |
| Accounts payables | 25,000 | Accounts receivables | 60,000 |
| Bills payables | 50,000 | Cash balance | 40,000 |
| | 1,250,000 | | 1,250,000 |

The City Company purchased Metro Company on Dec 31, 2014 on the following terms:

- Plant and machinery were taken at Rs. 1200,000 and investment at Rs. 40,000 and other assets were taken at book value.
- Provide sufficient cash to meet cash payment for creditor of Metro Company. Issue sufficient number of equity share of Rs.100 each at par.

Required:

- Purchase Consideration
- Entries in the book of Metro Company
- Realization a/c
- Entries in the book of City company, and
- Opening balance sheet in City Company in proper format complying company Act and Accounting Standards

OR

The financial statements of a Company are as follows:

Profit & Loss Account
For the year ended Dec. 31, 2014

| Particulars | Rs. |
|---------------------------|----------------|
| Net sales | 39,00,000 |
| Add: Miscellaneous income | 150,000 |
| Total income | 40,50,000 |
| Less: Cost of goods sold | 29,30,000 |
| Operating expenses | 340,000 |
| Depreciation | 150,000 |
| Interest | 250,000 |
| Provision for tax | 172,000 |
| Net profit | 208,000 |

Statement of Retained Earnings

| | |
|--------------------------------|-------------|
| Opening retained earnings | Rs. 100,000 |
| Net income of the year | 208,000 |
| Divisible income | 308,000 |
| Less: Dividend declared & paid | 150,000 |
| Retained earnings at the end | Rs.158,000 |

Balance Sheet
As on Dec. 31, 2014

| Liabilities | 2013 Rs. | 2014 Rs. | Assets | 2013 Rs. | 2014 Rs. |
|-----------------|-----------|-----------|--------------------|-----------|-----------|
| Share capital | 750,000 | 750,000 | Fixed assets | 1,035,000 | 1,035,000 |
| Retain earnings | 100,000 | 158,000 | Less: | | |
| Bank Loan | 250,000 | 200,000 | Depreciation | (300,000) | (450,000) |
| Account payable | 125,000 | 140,000 | Inventory | 200,000 | 270,000 |
| | | | Account receivable | 140,000 | 185,000 |
| | | | Cash | 150,000 | 208,000 |
| | 12,25,000 | 12,48,000 | | 12,25,000 | 12,48,000 |

The general price index of 2013 was 100 and 120 in 2014

Required: Financial Statements under Current Cost Accounting

[4. + 5 + 6 = 15]

Exam 2070

Group "A"

Attempt All the Questions:

1. What do you mean by Human Resource Accounting? Explain the factor leading to development of Human Resource Accounting. [4+4=8]
2. What do you mean by Accounting Theory? Explain the different approaches of Accounting Theory. [3+5=8]
3. The balance sheet of a company reported the following position of shareholder equity on 31st December, 2013.

| Shareholder's equity | Rs. |
|--|-----------|
| Equity shares of Rs.10 each | 400,000 |
| 10% preference shares of Rs.10 each | 200,000 |
| Paid in capital in excess of par value | 200,000 |
| Retained earning | 250,000 |
| Less: treasury stock (500 shares) | (10,000) |
| Total shareholder's equity | 1,040,000 |

Required:

- ① Amount of preference dividend
- ② Outstanding number of equity shares
- ③ Book value per equity share under the assumption that 'no preference dividends' are in arrear and company has not yet declared dividend for 2013. [2+2+4=8]
4. The total number of employees in the age group 18 - 27 in a manufacturing concern is 300, and figure average earning per year per employee is expected to be as follows:

| Age (year) | Average annual earnings per employee (Rs.) |
|------------|--|
| 18 - 27 | 8,000 |
| 28 - 37 | 9,000 |
| 38 - 47 | 10,000 |
| 48 - 57 | 11,000 |

Additional information

- a. The discount rate is 10%.
- b. All the 300 employees are of 18 years old.

Required: The value of human capital of the employees.

[8]

5. The financial statement of the Kathmandu Information Management Ltd., for the year ended December, 2013 were as follows:

| Income statement for Dec. 31st, 2013 | |
|--------------------------------------|----------------|
| Sales revenue (Rs.) | 600,000 |
| Less: cost of goods sold (Rs.) | 300,000 |
| Gross profit | 300,000 |
| Less expenses: | |
| Operating = 80,000 | |
| Depreciation = 15,000 | 95,000 |
| Net profit | 205,000 |

Balance Sheet for Dec. 31st, 2013:

| Liabilities | Rs. | Assets | Rs. |
|---------------------------|----------------|--------------------|----------------|
| Head office A/C | | Cash | 50,000 |
| Opening balance = 160,000 | | | |
| Net profit = 205,000 | 365,000 | Account receivable | 80,000 |
| | | Stock | 100,000 |
| | | Net fixed assets | 135,000 |
| Total | 365,000 | | 365,000 |

Additional information:

- Cost of goods sold includes opening stock of Rs.90,000 and purchase of Rs.310,000.
- Fixed assets were acquired on the date when the exchange rate was \$1 = Rs.80.
- Exchange rate at the beginning was Rs.80 and at the end of the year 2013, Rs.100 for US \$1.

Required: Financial statements stated on US\$ value.

[8]

OR

Shah Company Ltd., is facing capital shortage due to losses in past years that showed the deficit at December 31, 2012. The company decided to adopt the internal reorganization option that is attractive and permissible under the law.

The summarized deficit balance sheet at December 31st, 2012 along with fair value of assets is given below:

| Assets | Book value (Rs.) | Fair value (Rs.) |
|--------------------|------------------|------------------|
| Cash | 90,000 | 90,000 |
| Account receivable | 80,000 | 80,000 |
| Plant assets (net) | 1,350,000 | 1,100,000 |
| Land | 500,000 | 700,000 |
| Equipment (net) | 4,000,000 | 3,400,000 |
| Total | 6,020,000 | 5,370,000 |

| Liabilities | Rs. |
|------------------------|------------------|
| Common stock | 3,000,000 |
| Excess paid in capital | 3,650,000 |
| Long term loan | 250,000 |
| Current liabilities | 300,000 |
| Retained earning | (1,180,000) |
| Total | 6,020,000 |

Required:

- Journal entries necessary to accomplish a corporate readjustment and adjustment to be made on common stock excess paid in capital.
- Post reorganization balance sheet.

[4+4=8]

6. The following balance sheet of H. Co. and S. Co. and other information are given below:

| Liabilities | H.Co. (Rs.) | S.Co. (Rs.) | Assets | H.Co. (Rs.) | S.Co. (Rs.) |
|--------------------------------------|----------------|----------------|------------------------------------|----------------|----------------|
| Equity shares capital of Rs.100 each | 400,000 | 200,000 | Plant & Machinery | 440,000 | 350,000 |
| 10% debenture | 40,000 | - | Investment in 1500 shares in S.Co. | 200,000 | - |
| General reserve | 60,000 | 40,000 | Stock | 80,000 | 60,000 |
| P/L a/c | 40,000 | 20,000 | Account receivable | 100,000 | 80,000 |
| Account payable | 300,000 | 240,000 | Cash | 20,000 | 10,000 |
| | <u>840,000</u> | <u>500,000</u> | | <u>840,000</u> | <u>500,000</u> |

Additional information:

Shares in S.Co. are acquired on beginning of January current year. General reserves and P/L a/c had credit balance at the time of acquisition Rs.25,000 and Rs.10,000 respectively. Stock includes Rs.30,000 cost, purchase from S.Co. on which S.Co. made a profit of 25%.

Required: Consolidated Balance Sheet in suitable format complying Company Act and Accounting Standards. [10]

OR

The following financial statements are extracted from book of XYZ Co.

| Income Statement for the year ended 31 st December, 2012 | |
|---|---------------------------|
| Sales (Rs.) | 3,400,000 |
| Cost of goods sold | 1,920,000 |
| | Gross profit 1,480,000 |
| Less: Operating expenses: | |
| Depreciation | 140,000 |
| Salary expenses | 340,000 |
| Selling expenses | 300,000 |
| Interest expenses | 60,000 |
| | 840,000 |
| | Profit before tax 640,000 |
| Less income taxes | 293,000 |
| | <u>Net profit 347,000</u> |

Balance Sheet as on 31st Dec. 2012

| Liabilities | 2011 | 2012 | Assets | 2011 | 2012 |
|----------------------|------------------|------------------|-------------------|------------------|------------------|
| Equity share capital | 700,000 | 1,400,000 | Plant & Machinery | 800,000 | 1,800,000 |
| Bank loan | 112,000 | 120,000 | Investment | 280,000 | 400,000 |
| 10% debenture | 900,000 | 750,000 | Prepaid expenses | 18,000 | 15,000 |
| Reserve & surplus | 758,000 | 1,005,000 | Stock | 667,000 | 760,000 |
| Creditors | 265,000 | 260,000 | Debtors | 400,000 | 335,000 |
| Tax payable | 180,000 | 300,000 | Cash | 750,000 | 525,000 |
| | | | | | 3,835,000 |
| | <u>29,15,000</u> | <u>3,835,000</u> | | <u>29,15,000</u> | <u>3,835,000</u> |

Required: Cash flow statement in proper format complying Company Act and Accounting Standards. [10]

7. The following statement is prepared by a company:

| Particulars | Rs. |
|-----------------------------|-----------|
| Revenue from sales of goods | 500,000 |
| Less Excise duty and VAT | (100,000) |
| Payment to supplier | (250,000) |
| Value added | 150,000 |

Allocated as follows:

| | | |
|--|--------|---------|
| a. Salary, wages and other benefits to employees | | 50,000 |
| b. Governments: | | |
| Provision for taxation on profits | 20,000 | |
| Rates and taxes | 10,000 | 30,000 |
| c. Providers of capital: | | |
| Interest on loan | 10,000 | |
| Dividends | 30,000 | 40,000 |
| d. Retention in business: | | |
| Depreciation | 18,000 | |
| Increase in profit (Balancing fig) | 12,000 | 30,000 |
| | | 150,000 |

Required: ① Explain briefly the basic concept fulfilled by the above statement. ② Explain briefly the contents and usage of above statement. [5+5=10]

8. A brick industry located in a community provides the following expenses relating to social cost and benefit for the year ended 2069.

(i) Expenses made to provide benefits to industry level staff:

| | |
|----------------------------------|------------|
| Medical and hospital facilities | Rs.300,000 |
| Education and housing facilities | Rs.400,000 |
| Training and career development | Rs.40,000 |
| Water supply and electricity | Rs.90,000 |
| Provident fund and gratuity | Rs.400,000 |
| Education and holiday benefits | Rs.200,000 |

(ii) Expenses made to provide benefits to community:

| | |
|--|------------|
| Local and municipality taxes | Rs.100,000 |
| Community job environment & facilities improvement | Rs.200,000 |

(iii) Expense made to provide benefits to general public:

| | |
|---|--------------|
| Government taxes | Rs.2,000,000 |
| Cost incurred: | |
| • To staff for lay off and voluntary termination | Rs.200,000 |
| • To community for increase in cost of living in vicinity on account of brick plant | Rs.100,000 |
| • To general public for consumption of government services | Rs.500,000 |

Required: Social income statement showing social income benefit to ① staff ② community and ③ general public. [10]

9. What are the different issues in financial reporting? Mention the disclosure required in financial reporting as per accounting and financial reporting standard in Nepal. [7+8=15]

10. A. Co. and B. Co. are agreed to amalgamate of their business. A new company ABC is to be formed to while the assets and liabilities of the existing companies are to be transferred. On the date of amalgamation, the balance sheets of the two companies were as under:

| Liabilities | A. Co. | B. Co. | Assets | A. Co. | B. Co. |
|------------------------------|-----------|---------|-------------------|-----------|---------|
| Equity share capital | 750,000 | 200,000 | Plant & Machinery | 1,000,000 | - |
| 10% preference share capital | 250,000 | - | Furniture | 175,000 | 50,000 |
| 10% debenture | 300,000 | - | Stock | 175,000 | 101,000 |
| General reserve | 80,000 | - | Debtors | 60,000 | 30,000 |
| P/L a/c | 65,000 | 16,000 | Cash at bank | 60,000 | 45,000 |
| Creditors | 25,000 | 10,000 | | | |
| | 1,470,000 | 226,000 | | 1,470,000 | 226,000 |

The following terms were agreed upon by the parties:

- ABC Co. to allot 90,000 equity shares of Rs.10 each @ Rs.12.50 to A. Co. and debentures of the same company are to be discharged by the issue of 12% debenture of ABC Co. at a discount of 10%.
- The holder of 10% preference shares of A.Co. would be allotted 12% preference shares of ABC Co. amounting to Rs.300,000.
- B. Co. is to receive 15,000 equity shares of Rs.10 each @ Rs.12.50 each and Rs.20,000 cash from ABC. Co.
- ABC Co. is to pay & bear liquidation expenses of Rs.6,000 for A. Co. and Rs.5,000 for B. Co.

Required:

- Purchase consideration of A. Co. and B. Co.
- Journal entries in the book of A Company.
- Journal entries in the book of ABC Company.
- Balance Sheet of ABC Company.

[2+6+4+3=15]

OR

The financial statements of XYZ Company are as follows:

| Income Statement for the year ended 2012 | | |
|--|-----------|--------------|
| Sales | | Rs.3,000,000 |
| Less: Cost of goods sold | | |
| O. Stock | 220,000 | |
| Add: Purchases | 2,080,000 | |
| Less: C. stock | 380,000 | 1,920,000 |
| Gross profit | | 1080,000 |
| Less: Operating expenses | 578,000 | |
| Interest expenses | 72,000 | |
| Depreciation | 100,000 | 750,000 |
| Net profit | | 330,000 |
| Less: Provision for tax | 160,000 | |
| Dividend | 90,000 | 250,000 |
| Retained earning | | 80,000 |

Balance Sheet for the year ended 2011 & 2012

| Liabilities | 2011 | 2012 | Assets | 2011 | 2012 |
|---------------|-----------|-----------|--------------------------------|-----------|-----------|
| Share capital | 600,000 | 600,000 | Plant & Machinery | 1,000,000 | 10,00,000 |
| 12% Debenture | 660,000 | 600,000 | Less: Accumulated depreciation | 300,000 | 400,000 |
| | | | | 700,000 | 600,000 |
| P/L a/c | 200,000 | 280,000 | Stock | 220,000 | 380,000 |
| Creditor | 200,000 | 240,000 | Debtors | 300,000 | 400,000 |
| | | | Cash | 440,000 | 340,000 |
| | 1,660,000 | 1,720,000 | | 1,660,000 | 1,720,000 |

The general price index of 2011 and 2012 was 100 and 120 respectively.

Required: Financial statement under Current Cost Accounting.

[15]

Exam 2069

Group "A"

Attempt All the questions.

1. Write about the objectives and qualitative characteristics of Financial Reporting. [4+4=8]
 2. Write about the contemporary issues of Financial Reporting of a corporation. [8]

OR,

3. Explain about the ethical approach to Accounting Theory. [8]
 The estimated annual wages and salaries for the next five years are reported by a firm.

| Years | Estimated annual wages and salaries | Accounting rate of return | Rate of return for all the firms in the economy |
|-------|-------------------------------------|---------------------------|---|
| 1 | Rs. 400,000 | 17% | 10% |
| 2 | Rs. 500,000 | 18% | 20% |
| 3 | Rs. 600,000 | 21% | 15% |
| 4 | Rs. 650,000 | 25% | 20% |
| 5 | Rs. 800,000 | 24% | 15% |

The discount rate applicable is 12%.

Required: ① Present value of annual wages and salaries.

② Present value of human resources. [4+4 = 8]

4. The balance sheet as of Chaitra 31, of 2066 and 2067 are as follows:

| Equities | 2066 (Rs.) | 2067 (Rs.) |
|-------------------------|------------|------------|
| Share capital | 1,000,000 | 1,200,000 |
| Profit and loss account | 200,000 | 350,000 |
| Account payable | 400,000 | 500,000 |
| 10% debentures | 500,000 | 650,000 |
| Tax payable | 50,000 | 60,000 |
| Dividend payable | 80,000 | 100,000 |
| Total | 2,230,000 | 2,860,000 |

| Assets | 2066 (Rs.) | 2067 (Rs.) |
|--------------------------|------------|------------|
| Fixed assets | 1,250,000 | 1,730,000 |
| Accumulated depreciation | (260,000) | (380,000) |
| Trade investment | 350,000 | 500,000 |
| Current assets | 800,000 | 950,000 |
| Miscellaneous expenses | 90,000 | 60,000 |
| Total | 2,230,000 | 2,860,000 |

Required: ① The amount of capital employed for the year 2066 and 2067.

② The amount of average capital employed during the accounting year 2067. [6+2=8]

5. The Balance Sheet of a company as on Chaitra 31, 2067 is as follows:

| Liabilities | Rs. | Assets | Rs. |
|---|-----------|--------------------|-----------|
| 5,000 equity shares of Rs. 100 each | 500,000 | Land and building | 500,000 |
| 3,000; 10% Preference share of Rs. 100 each | 300,000 | Plant | 300,000 |
| Reserve | 100,000 | Inventory | 150,000 |
| Account payable | 150,000 | Account receivable | 80,000 |
| | 1,050,000 | Cash | 20,000 |
| | | | 1,050,000 |

The profit earned by the company during the last five years are as follows:

| Years | Profit before tax |
|-------|-------------------|
| 2063 | 150,000 |
| 2064 | 187,500 |
| 2065 | 200,000 |
| 2066 | 225,000 |
| 2067 | 240,000 |

The company has been paying Rs. 75,000 annual remuneration to the managerial personnels but it needs to pay Rs. 100,000 annual remuneration in future.

The normal rate of return of the company is 12%.

The corporate tax rate is 40%.

Required:

- ① Weighted average profit
- ② Earning available for distribution to equity share holders
- ③ Value per share based on yield method

[2+3+3=8]

OR,

The income statement and balance sheet of a US Branch of Nepal Spinning Mills are as follows:

**Profit and Loss a/c for the year ended
December 31, 2010**

| Particular | Amount | Amount |
|------------------------------------|----------|-------------|
| Sales | | Rs. 725,000 |
| Less: Cost of goods sold | | |
| Beginning inventory | 50,000 | |
| Purchase | 350,000 | |
| Ending inventory | (80,000) | 320,000 |
| Wages | | 405,000 |
| Gross profit | | 120,000 |
| Less: Operating expenses: | | 285,000 |
| Works overheads | 60,000 | |
| Depreciation | 20,000 | |
| Office overheads | 50,000 | |
| Selling and distribution overheads | 30,000 | 160,000 |
| Net Profit | | 125,000 |

Balance Sheet as on Dec. 31, 2010

| Liabilities | Rs. | Assets | Rs. |
|----------------------|---------|---------------------|---------|
| H.O. Current account | | Fixed Assets | |
| Opening balance | 540,000 | less depreciation | 340,000 |
| Net Profit | 125,000 | Inventory | 80,000 |
| | | Account receivable. | 155,000 |
| | | Cash | 90,000 |
| | 665,000 | | 665,000 |

The fixed assets were acquired on the date when the exchange rate was \$ 1 equivalent to Rs 69. The exchange rate in the beginning of the year was Rs. 69 and it was Rs. 72 at the end of the year 2010.

Required: Financial statements in dollar value.

[4 + 4 = 8]

6. Green Company acquired 1,800 equity shares of Rs. 100 each in yellow company on Chaitra 2067. The balance sheets of Green company and yellow company as on that date are as follows:

| Liabilities | Green (Rs.) | Yellow (Rs.) |
|---|------------------|----------------|
| Equity shares of Rs. 100 each | 600,000 | 300,000 |
| Reserve | 120,000 | 50,000 |
| Profit and loss a/c | 150,000 | 60,000 |
| Account payable | 130,000 | 70,000 |
| Bills payable (Rs. 10,000 payable to Green) | - | 20,000 |
| Net assets employed | 1,000,000 | 500,000 |

| Assets | Green (Rs.) | Yellow (Rs.) |
|---|------------------|----------------|
| Land and building | 250,000 | 200,000 |
| Plant and machinery | 300,000 | 225,000 |
| Stock | 30,000 | 25,000 |
| Investment in yellow company | 270,000 | - |
| Account receivable | 60,000 | 30,000 |
| Bills receivable (Rs. 8,000 receivable from Yellow Company) | 40,000 | - |
| Cash | 50,000 | 20,000 |
| | 1,000,000 | 500,000 |

The additional information available are as follows:

- Land and building of Yellow Company are valued at Rs. 280,000 and plant and machinery are under stated by Rs. 30,000.
- Account payable of Yellow Company includes Rs. 15,000 due to Green Company.
- Yellow Company has made a bonus share issue of 2 equity shares for every 3 equity shares held by its shareholders on Chaitra 31, 2067, but the necessary effect in its books and accounts has not yet made.

Required: Consolidated Balance Sheet as on Chaitra 31, 2067 by pursuing the norms of Company Act of Nepal and Nepal Accounting Standards. [2+2+2+4=10]

OR

The Balance Sheets as on Chaitra 31, 2066 and 2067 and income statement for the year ended Chaitra 31, 2067 of Quality Commercial Bank are as follows:

| Liabilities | 2066 (Rs.) | 2067 (Rs.) |
|---------------------------|------------------|------------------|
| Share capital | 1,600,000 | 2,300,000 |
| Reserve | 400,000 | 500,000 |
| Profit and loss a/c | 250,000 | 380,000 |
| Deposits | 2,500,000 | 3,800,000 |
| Other current liabilities | 150,000 | 190,000 |
| | 4,900,000 | 7,170,000 |

| Assets | 2066 (Rs.) | 2067 (Rs.) |
|--------------------------------|------------------|------------------|
| Fixed assets (non operational) | 800,000 | 1,160,000 |
| Investment | 2,050,000 | 2,090,000 |
| Loan and advances | 1,000,000 | 2,300,000 |
| Deposit with NRB | 250,000 | 320,000 |
| Money at short notice | 600,000 | 900,000 |
| Cash at bank | 200,000 | 400,000 |
| | 4,900,000 | 7,170,000 |

Income Statement for the year ended Chaitra 31, 2067

| Particulars | Rs. | Particulars | Rs. |
|-------------------------|---------|---|---------|
| To Interest on deposits | 456,000 | By Interest | 836,000 |
| To Salaries & allowance | 240,000 | By Commission | 350,000 |
| To Rent & taxes | 190,000 | By Dividend | 320,000 |
| To Insurance | 60,000 | By Recovery from the loss written off previously | 125,000 |
| To Office expenses | 160,000 | | |
| To Depreciation | 70,000 | | |

| | | | |
|-------------------|-----------|----------------------------|-----------|
| To Income tax | 80,000 | | |
| To Net profit c/d | 375,000 | | |
| | 1,631,000 | | 1,631,000 |
| To Reserve | 100,000 | By Net profit b/d | 375,000 |
| To Dividend paid | 145,000 | By Profit and loss balance | 250,000 |
| To Balance | 380,000 | | |
| | 625,000 | | 625,000 |

Required: Cash flow statement by adopting the directives of Company Act of Nepal, NRB and Nepal Accounting Standard. [4+3+2+1=10]

7. The benefits and expenses made for facilities by an industry for the year 2067 are as follows:

| | |
|--|-------------|
| Employees carrier development expenses | Rs. 175,000 |
| Release for employees retirement and leave | 350,000 |
| Housing and transportation expenses | 280,000 |
| Employees children education and child care expenses | 120,000 |
| Medical and hospital service expenses | 90,000 |
| Cafeteria, sports and recreation expenses | 80,000 |
| Tax paid to government | 360,000 |
| Local tax paid to municipality | 185,000 |
| Environmental improvement expenses | 60,000 |
| Employment opportunity | 50,000 |
| Telephone and electricity facilities | 175,000 |
| Banking facilities | 125,000 |
| Postal service | 40,000 |
| Park facilities | 150,000 |
| Extra hours worked by officers voluntarily | 50,000 |
| Uncompensated losses because of theft | 25,000 |

Required: Social Income Statement showing net social income benefits based on

- ① Staff ② Community and ③ General public. [4+3+3=10]

8. The actual profit and loss and estimated profit of a Garment Factory are stated below:

| Years | Taxable profit and loss | Tax rate |
|----------------|-------------------------|----------|
| 2064 | Rs. 30,000 | 20% |
| 2065 | Rs. 20,000 | 20% |
| 2066 | Rs. 10,000 | 20% |
| 2067 loss | (Rs. 90,000) | 20% |
| 2068 estimated | Rs. 20,000 | 20% |
| 2069 estimated | Rs. 30,000 | 25% |
| 2070 estimated | Rs. 30,000 | 30% |
| 2071 estimated | Rs. 50,000 | 30% |
| 2072 estimated | Rs. 50,000 | 35% |

The margin rate of return of the factory is 10%.

Required: ① Tax-adjustment if carry-back option is adopted ② Tax adjustment if carry-forward option is adopted ③ Present value of carry-back and carry-forward options tax adjustment ④ Choice of the option [3+3+2+2=10]

9. Write about the meaning of Environmental Accounting, the area covered by it and its accounting issues. [5+5+5=15]
10. The business of a Company Ltd. was being carried on continuously at losses. The following are the extracts from the balance sheet of the company 31st December, 2010.

Balance Sheet

| Liabilities and equities | Rs. | Assets | Rs. |
|---|-----------|----------------------|-----------|
| Authorised, issued & subscribed capital: 30,000 equity shares of Rs. 100 each, fully paid | 300,000 | Goodwill | 50,000 |
| 20,000; 8% Cumulative preference shares of Rs. 100 each, fully paid | 200,000 | Plant | 300,000 |
| Share premium | 90,000 | Loose tools | 10,000 |
| Unsecured loan (from Directors) | 50,000 | Debtors | 250,000 |
| Sundry creditors | 300,000 | Stock | 150,000 |
| Outstanding expenses (including directory remuneration Rs. 20,000) | 70,000 | Cash | 10,000 |
| | | Cash at bank | 35,000 |
| | | Preliminary expenses | 5,000 |
| | | Profit & loss a/c | 200,000 |
| | 1,010,000 | | 1,010,000 |

Note: Dividends on cumulative preference shares are in arrears for 3 years.

The following scheme of reconstruction has been agreed upon and fully approved by court.

- Equity shares to be converted into 150,000 shares of Rs. 2 each.
- Preference shareholders agreed to forego their rights to arrears to dividends in consideration of which 8% preference shares are to be converted into 9% preference shares.
- Sundry creditors agreed to reduce their claim by one fifth in consideration of their getting shares of Rs. 35,000.
- Directors agreed to forego the amount due an account of unsecured loan and Director's remuneration.
- Assets to be reduced as follows:

| | |
|----------------|------------|
| Goodwill | Rs. 50,000 |
| Plant | 40,000 |
| Tools | 8,000 |
| Sundry debtors | 15,000 |
| Stock | 20,000 |

- Any surplus after meeting the losses should be utilised in writing down the value of plant.
- Expenses of reconstruction amounted to Rs. 10,000.
- Further 50,000 equity shares were issued to existing members for increasing the working capital. The issue was fully subscribed and paid-up.

Required:

- Journal entries for giving effect to the above arrangements.
- Capital Reduction A/c
- Sundry Creditors A/c
- Opening balance sheet of the company in proper format complying Company Act and Accounting Standards.

[6+3+2+4=15]

OR

A Company Ltd., has the following financial statements prepared on historical cost concept for the year ending 2066 and 2067.

| Liabilities and Equities | 2066 (Rs.) | 2067 (Rs.) |
|--------------------------|------------|------------|
| Common stocks | 200,000 | 200,000 |
| 10% Debentures | 80,000 | 140,000 |
| Accounts payable | 52,000 | 92,000 |
| Dividend payable | 24,000 | 32,000 |
| Retained earning | 44,000 | 56,000 |
| | 400,000 | 520,000 |

| Assets | 2066 (Rs.) | 2067 (Rs.) |
|--------------------------|------------|------------|
| Fixed assets | 480,000 | 480,000 |
| Accumulated depreciation | (192,000) | (240,000) |
| Inventories | 80,000 | 160,000 |
| Accounts receivable | 20,000 | 72,000 |
| Bank | 12,000 | 48,000 |
| | 400,000 | 520,000 |

Income Statement 2067

| Particular | Amount (Rs.) | Amount (Rs.) |
|-------------------------------|--------------|--------------|
| Sales revenues | | 600,000 |
| Less: Cost of goods sold | | 400,000 |
| Gross margin | | 200,000 |
| Less: Operating expenses: | 94,000 | |
| Interest on debenture | 14,000 | |
| Depreciation | 48,000 | 156,000 |
| Net profit | | 44,000 |
| Add: Opening retained earning | | 44,000 |
| | | 88,000 |
| Less: Dividend payable | | 32,000 |
| Closing retained earning | | 56,000 |

Prices of fixed assets went up to 150% since their acquisition till 2066 and to 180% by the end of 2067. The cost of purchase increased by 20% during the year.

| | 2066 (Rs.) | 2067 (Rs.) |
|---|-------------|-------------|
| The replacement price of inventory were | Rs. 108,000 | Rs. 240,000 |

Required:

- Current cost income statement for the year 2067.
- Current cost balance sheet for the end of year 2067.

[7+8=15]

Exam 2068

Group "A"

Attempt ALL the questions.

- Define accounting theory with its primary purpose.

OR

"Accounting theory has a great utility for improving accounting practices and resolving complex accounting issues." Discuss the statement. [8]

- Define accounting standards and explain briefly the merit and demerits of issuing accounting standards. [8]
- The balance sheet of a company reported the following position of shareholder's equity on 31st Chaitra, 2067:

| | |
|--|----------------|
| 8% preference share of Rs 10 each | Rs 100,000 |
| Equity shares of Rs 10 each | 300,000 |
| Paid in capital in excess of par value | 250,000 |
| Retained earning | 350,000 |
| Less: Treasury stock, (500 shares) | (6,000) |
| Total shareholder's equity | 994,000 |

Required: (1) Amount of preference dividend (2) Outstanding number of equity shares (3) Book value per equity share under the assumption that no preference dividends are in arrear and company has not yet declared dividend for 2067. [2+2+4=8]

- The total number of employees in the age group 21-30 in a manufacturing concern is 200, and future average earnings per year per employee is expected to be as follows:

| Age (year) | Average annual earnings per employee (Rs) |
|------------|---|
| 21-30 | 6,000 |
| 31-40 | 7,000 |
| 41-50 | 8,000 |
| 51-60 | 9,000 |

Additional information:

- i. The discount rate is 10%. ii. All the 200 employees are of 21 years old.

Required: The value of human capital of the employees. [8]

5. The following information was extracted from the ledger of a company:

| | |
|---|----------|
| Prior period adjustment credit to retained earning | Rs 5,000 |
| Gain on sale of plant assets | 21,000 |
| Cost of goods sold | 380,000 |
| Income tax expenses: | |
| Continuing operation | 32,000 |
| Discontinued operation | 8,000 |
| Dividends | 16,000 |
| Selling expenses | 78,000 |
| Sales revenue | 620,000 |
| Interest expenses | 30,000 |
| Extraordinary gain | 26,000 |
| Extra-ordinary expenses | 10,000 |
| Income from discontinued operations | 20,000 |
| Loss due to law suit | 11,000 |
| General expenses | 62,000 |
| Cumulative effect of change in inventory method (debit) | 6,000 |
| Retained earnings, beginning as originally reported | 103,000 |
| Preferred stock, 12%; Rs. 100 par | 50,000 |
| Common stock, outstanding number of shares: | 40,000 |

Required: ● Income statement (vertical) as per Nepal Accounting standard ● Statement of retained earnings ● Earning per share (EPS) [4+2+2=8]

OR

The following are the profit and loss account and balance sheet of a UK branch of Nepal Product Ltd., A Nepalese product exporter.

Profit & Loss Account for the year ended last year

| Particulars | Amount | Amount |
|--------------------------|---------|----------------|
| Sales | | 400,000 |
| Less: Cost of goods sold | | |
| Opening stock | 60,000 | |
| Purchase | 180,000 | |
| | 240,000 | |
| Less: Closing stock | 40,000 | 200,000 |
| Gross profit | | 200,000 |
| Less: Operating expenses | | |
| Depreciation | 20,000 | |
| Office expenses | 60,000 | 80,000 |
| Net profit | | 120,000 |

Balance sheet as at end of last year

| Assets | Rs. |
|----------------------------|----------------|
| Fixed assets (Net) | 120,000 |
| Account receivable | 80,000 |
| Stock | 40,000 |
| Cash | 60,000 |
| Net assets employed | 300,000 |

| Liabilities | | Rs. |
|--------------------|----------------|-----------------|
| HO current account | | |
| Opening balance | Rs 180,000 | |
| Net profit | 120,000 | 3,00,000 |

Additional information

Fixed assets was acquired on the date when the exchange rate was £1 = NRs 90. Exchange rate at the beginning of the year was Rs 90 and at the end of the year, £ 100.

Required: Financial statements stated on £ value.

[4+4=8]

6. The following balance sheet of H. Co. and S. Co. and other information are given below:

| Liabilities & equities | H. Ltd. (Rs) | S. Ltd. (Rs) |
|-------------------------------|------------------|-----------------|
| Preference share capital | 100,000 | 40,000 |
| Equity share capital (Rs 100) | 1,100,000 | 200,000 |
| Reserves | 400,000 | 150,000 |
| P/L a/c | 200,000 | 50,000 |
| Account payables | 300,000 | 100,000 |
| Proposed dividend | — | 40,000 |
| Total | 2,100,000 | 5,80,000 |

| Assets | H. Ltd. (Rs) | S. Ltd. (Rs) |
|----------------------------------|------------------|-----------------|
| Goodwill | 20,000 | 10,000 |
| Machinery | 600,000 | 180,000 |
| Furniture | 100,000 | 34,000 |
| Investment (1,600 equity shares) | 320,000 | — |
| Other assets | 1060,000 | 346,000 |
| Discount on issue of shares | — | 10,000 |
| Total | 2,100,000 | 5,80,000 |

Additional information:

- On date of acquisition of shares by H. Co., reserves and profit and loss account of S.Co. stood at Rs 50,000 and Rs 30,000 respectively.
- Machinery (Book value, Rs 200,000) of S.Co. was revalued at Rs 300,000.
- S.Co. made a bonus issue during the year out of pre-acquisition profit of Rs 40,000 not recorded in the books.
- Included in account payable of S.Co. is Rs 20,000 for goods supplied by H.Co.
- The proposed dividend of S.Co. is made out of the post-acquisition profit and H.Co. has made no adjustments for the same.

Required: Consolidated balance sheet in suitable format complying Company Act and Accounting Standards. [10]

OR

The following financial statements are extracted from the book of Apex Co.

| Assets | 2066 (Rs) | 2067 (Rs) |
|--------------------------|----------------|----------------|
| Cash | — | 200 |
| Pre-payments | 200 | 100 |
| Account receivable | 25,000 | 34,000 |
| Inventory | 30,000 | 36,000 |
| Land & building | 166,000 | 176,000 |
| Plant & machinery | 20,000 | 20,000 |
| Accumulated depreciation | (6,000) | (12,000) |
| Total | 235,200 | 254,300 |

| Liabilities & equities | 2066 (Rs) | 2067 (Rs) |
|------------------------|----------------|----------------|
| Accounts payable | 20,000 | 14,000 |
| Bank overdraft | 30,000 | 32,000 |
| Loan from XY Co. | 63,200 | 20,000 |
| Capital stock | 122,000 | 122,000 |
| Retained earning | — | 66,300 |
| Total | 235,200 | 254,300 |

Income Statement for the year ended 2067

| Particulars | Amount (Rs) | Amount (Rs) |
|--------------------------|-------------|---------------|
| Sales Revenue | | 250,000 |
| Less: Cost of goods sold | | 140,000 |
| Gross profit | | 110,000 |
| Less: Operating expenses | | |
| Depreciation | 6,000 | |
| Salaries/wages | 16,000 | |
| Selling expenses | 4,000 | |
| Interest expenses | 5,000 | 31,000 |
| Net profit | | 79,000 |

Required: Cash Flow Statement in proper format complying company Act and Accounting Standards. [5 + 1 + 3 + 1 = 10]

7. A cement industry located in a community provides the following expenses relating to social cost and benefit for the year ended 2067.

a. Expenses made to provide benefits to industry level staff:

| | |
|--|-------------|
| Medical and hospital facilities | Rs. 210,000 |
| Education facilities | 80,000 |
| Canteen facilities | 22,000 |
| Recreation and entertainments | 16,000 |
| Housing & township facilities | 300,000 |
| Training & career development | 35,000 |
| Water supply, electricity & transport | 100,000 |
| Provident fund, gratuity, insurance etc. | 450,000 |
| Holiday, leave travel benefits | 250,000 |

- b. Expenses made to provide benefits to community:

| | |
|---------------------------------------|------------|
| Local taxes paid to municipality | Rs 105,000 |
| Environment improvements | 100,000 |
| General of job potential and business | 250,000 |

- c. Expense made to provide benefits to general public:

| | |
|--|------------|
| Taxes & duties paid to government | Rs 250,000 |
| Cost incurred: | |
| Total cost to staffs for lay off, voluntary termination and extra hours put in by officers voluntarily | Rs 150,000 |
| Social cost to community for increase in cost of living in vicinity on account of cement plant | Rs 100,000 |
| Social cost to general public for electricity, telephone, transport and banking facilities | Rs 600,000 |

Required: Social Income Statement showing social income benefit to (a) staff (b) community and (c) general public [4+3+3=10]

8. The following statement is prepared by a company:

| | |
|---|----------------|
| Gross revenue from sale of goods and services | Rs 400,000 |
| Less: Excise duty and VAT | (92,000) |
| Payment to supplier for goods and services | (200,000) |
| Value added | 108,000 |

Allocated as follows:

| | | |
|--------------------------------------|--------|--------|
| a. Employees and assistants: | | |
| Salary, wages, pensions and benefits | | 13,500 |
| b. Governments: | | |
| Provision for taxation on profits | 27,000 | |
| Rates, royalty and taxes | 6,750 | 33,750 |
| c. Providers of capital: | | |

| | | | |
|----|--|--------|----------------|
| d. | Interest on loan | 13,500 | 40,500 |
| | Dividends | 27,000 | |
| | Retention in business: | | |
| | Depreciation, etc. | 13,500 | |
| | Increase in retained profit (balancing figure) | 6,750 | 20,250 |
| | | | 108,000 |

Required: (1) Explain briefly the basic concept fulfilled by the above statement (2) Explain briefly the contains and usage of above statement. [5+5=10]

9. Explain briefly the financial reporting and mention the discloser required in financial reporting as per national accounting and financial reporting standard in Nepal. [5+10=15]
10. The following Balance Sheet of liquidating company is given as on Dec. 31, 2010.

| | | | |
|--|----------------|-------------------|----------------|
| Share capital: | | Goodwill | Rs 40,000 |
| 500 12% cumulative Pref. share of Rs 100 each fully paid | Rs 50,000 | Plant & Machinery | 90,000 |
| 1500 Equity shares of Rs 100 each fully paid | 150,000 | Stock | 60,000 |
| 10% debenture | 30,000 | Debtors | 29,500 |
| Creditors | 20,000 | Bank | 2,500 |
| | | P/L a/c | 28,000 |
| | 250,000 | | 250,000 |

The following scheme for voluntary liquidation and forming a new company with authorized capital of Rs 350,000 under the name of Nepali Company Ltd. has been passed by the shareholders and creditors' committed.

- The share capital of the new company is in equity shares of Rs 100 each.
- One equity share of Rs 50 paid up in the new company to be allotted for each equity share in Old co.
- Two equity share of Rs 50 paid up in the New Co. to be allotted for each preference in the Old Co.
- Debentures to receive 300 equity share in the New Co. credited as fully paid.
- Creditors to be taken over by the New Co.
- The remaining unissued shares to be taken up and paid for in full by the directors.
- The New Co. to take over the Old Co.'s assets subject to writing down plant and machinery by Rs 30,000 and stock by Rs 15,000.

Required: ① Purchase consideration ② Entries in the book of liquidating company ③ Realisation a/c ④ Entries in the book of Nepali Co. Ltd. ⑤ Opening balance sheet in proper format complying Co. Act. [1+6+2+4+2]

OR

Following are the Balance sheets & P/L ac/ of a company prepared on HC basis.

| HC based Balance Sheets | | | | | |
|-------------------------|------------------|------------------|--------------|------------------|------------------|
| | 2009 | 2010 | | 2009 | 2010 |
| Share capital | 12,00,000 | 1200,000 | Fixed assets | 1200,000 | 1200,000 |
| P/L a/c | 240,000 | 230,000 | Less: Dep. | - | (120,000) |
| Sundry creditors | 470,000 | 390,000 | Inventory | 300,000 | 330,000 |
| Provision for tax | 40,000 | 80,000 | Debtors | 400,000 | 500,000 |
| Proposed dividend | 50,000 | 130,000 | Cash | 100,000 | 120,000 |
| Total | 2,000,000 | 2,030,000 | Total | 2,000,000 | 2,030,000 |

HC based Income Statement for the year ended Dec. 31, 2010

| | Amount (Rs) | Amount (Rs) |
|---------------------------------|-------------|----------------|
| Sales | | 2,800,000 |
| Less: Cost of goods sold | | |
| Opening stock | 420,000 | |
| Add: Purchases | 2,200,000 | |
| Less: Closing stock | 420,000 | 2,200,000 |
| Gross profit | | 600,000 |

| | | |
|---------------------------------|-------------|----------------|
| Less: Operating expenses | | |
| Depreciation | 120,000 | |
| Office operating expenditure | 280,000 | 400,000 |
| | NIBT | 200,000 |
| Less: Tax provision | | 80,000 |
| | NIAT | 120,000 |
| Opening P/L a/c b/d | | 240,000 |
| | | 360,000 |
| Less: Proposed dividend | | 130,000 |
| Closing P/L a/c balance | | 230,000 |

Additional information

- The price index in respect of plant went up to 150 at the end of 2010 which was 120 at the end of 2009 and 100 at the time of installation.
- The cost of purchases gone up by 30 percent during the year 2010 and by 10 percent in 2009.

Required: ① Current Cost Income Statement, and ② Current Cost Balance Sheet for the year ended 2010. [7+8=15]

Exam 2067**Group "A"****Attempt all the questions.**

1. What do you mean by financial reporting? Explain in brief the qualitative characteristics of financial statements. [2 + 6]
2. What do you mean by Accounting Standard? Explain in brief the Accounting Standard Board of Nepal. [3 + 5]
3. Following information is given:

| Year | Estimated annual remuneration | Accounting rate of return | Rate of return in the economy |
|------|-------------------------------|---------------------------|-------------------------------|
| 1 | 325,000 | 16 | 15 |
| 2 | 425,000 | 15 | 15 |
| 3 | 525,000 | 14 | 14 |
| 4 | 650,000 | 16 | 20 |

Discount rate applicable is 12%.

Required:

1. Present value (PV) of annual remuneration
2. Present value (PV) of human resources using Hermanson's adjusted discount of future remuneration. [4 + 4]
4. A Company Ltd. provides the following trial balance with respect to the year ended December 31, 2010.

| | Debit (Rs.) | Credit (Rs.) |
|-----------------------------------|----------------|----------------|
| Cash | 62,000 | |
| Account receivable | 20,000 | |
| Service revenue | | 100,000 |
| Prepaid insurance | 12,000 | |
| Unearned Service (income) revenue | | 21,000 |
| Salaries & wages expenses | 76,000 | |
| Utilities expenses | 9,000 | |
| Contributed capital | | 50,000 |
| Retained earnings | | 8,000 |
| Total | 179,000 | 179,000 |

Additional information:

Unearned service revenue earned to the extent of Rs.14,000 at the end of December, 2010.

Prepaid insurance expired to the extent of Rs.2000 at the end of December, 2010.

Wages of Rs.1000 have to be provided for 10 days of December.

Income tax expenses of Rs.3000 has to be provided for

Required:

- Financial Statement using preferred format comply with the Company Act and Accounting Standard including notes required
 - Receivable turnover ratio and return on capital employed [6 + 2]
5. Nepal Information Management Ltd., a Branch of US Information Management Incorporation provides the following financial statements for the year ended December 31, 2010.

Income statement for December 31, 2010

| Income statement | Details | Amount |
|---------------------------|---------|------------|
| Sales revenues | | Rs.525,000 |
| Less: Cost of goods sold | | 310,000 |
| Gross profit | | 215,000 |
| Less: Expenses: Operating | 74000 | |
| Depreciation | 28,000 | 102,000 |
| Net profit | | 113,000 |

Balance Sheet as on December 31, 2010

| | Amount |
|------------------------------------|----------------|
| Assets: Cash | 20,000 |
| Account receivable | 60,000 |
| Closing stock | 80,000 |
| Net fixed assets less Depreciation | 112,000 |
| | <u>272,000</u> |
| Liabilities: OH current A/c: | |
| Opening balance | 159,000 |
| Net profit | 113,000 |
| | <u>272,000</u> |

Additional Information:

Cost of goods sold includes opening stock of Rs.110,000 and purchases of Rs.280,000.

Fixed assets acquired on the date when the exchange rate was \$1 = Rs.80.

Exchange rate at the beginning of the year was Rs.80 and at the end of the year 2010, Rs.90 per US \$1.

Required: Financial Statement stated on US \$ value.

[4 + 4]

OR

Valley Co. Ltd. is facing severe capita shortage due to losses in past years that showed the deficit at December 31, 2010. The company decided to adopt the internal reorganization option that is attractive and permissible under the law. The summarized balance sheet at December 31, 2010 along with fair value of assets in given below

| | Book Value | Fair Value |
|------------------------|------------------|------------------|
| Assets: | | |
| Cash | 85,000 | 85,000 |
| Account receivable | 65,000 | 65,000 |
| Plant assets (net) | 1,403,050 | 975,000 |
| Land | 600,000 | 800,000 |
| Equipment (net) | 3,800,000 | 3,250,000 |
| | <u>5,953,500</u> | <u>5,175,000</u> |
| Liabilities: | | |
| Current liabilities | 200,000 | |
| Long term liabilities | 380,000 | |
| Common stock | 2,500,000 | |
| Excess paid in capital | 4,000,000 | |
| Retained earnings | (1126,500) | |
| | <u>5,953,500</u> | |

Required:

- Journal entries necessary to accomplish a corporate readjustment and adjustment to be made on common stock-excess paid in capital
- Post reorganization Balance Sheet [4 + 4]
- H. Ltd. acquired 1500 ordinary shares of Rs.100 each in S Ltd. on December end 2010. The summarized Balance Sheet of H Ltd. & S Ltd. as on that date were given as below:

| Income statement | H Ltd. (Rs.) | S Ltd. (Rs.) |
|---|----------------|----------------|
| Assets: | | |
| Land and building | 200,000 | 200,000 |
| Plant & machinery | 190,000 | 99,400 |
| Investment in S Ltd. | 320,000 | — |
| Stock | 140,000 | 26,000 |
| Account receivables | 42,000 | 30,000 |
| Bills receivable | 17,800 | — |
| Cash at bank | 14,500 | 18,000 |
| | 924,300 | 373,400 |
| Liabilities: | | |
| Share capital | 450,000 | 200,000 |
| General reserve | 290,000 | 120,000 |
| P/L a/c | 137,300 | 37,000 |
| Bills payable (Rs.4000 payable to H Ltd.) | — | 7400 |
| Creditors | 47,000 | 9000 |
| | 924,300 | 373,400 |

Consider the following information:

S Ltd. had made a bonus issue of three ordinary shares for every five share held by its shareholders on Dec. 31, 2010 for capitalizing the general reserve. Effect has yet to be given in the accounts for this issue.

The directors are advised that land and building of S Ltd. are undervalued by Rs. 25,000 and that of plant & machinery are overvalued by Rs. 15,000.

Required: Consolidated Balance Sheet as on December 31, 2010 in suitable format complying company Acts and Accounting Standard. [2.5 + 2.5 + 5]

OR

The comparative Balance Sheet & Income Statement of a Elite Commercial Bank for the year ending 31, 2010 are given below:

Comparative Balance Sheets at the end of December 31, 2010

| Liabilities | 2009 | 2010 | Assets | 2009 | 2010 |
|---------------------|------------------|------------------|--------------------------|------------------|------------------|
| Share capital | 560,000 | 780,000 | Cash at bank | 132,000 | 157,000 |
| Deposit a/c | 978,000 | 1,262,000 | Deposit with NRB | 240,000 | 260,800 |
| P/L a/c | 70,500 | 80,600 | Money at short notice | 131,000 | 86,000 |
| Current Liabilities | 177,500 | 117,000 | Investments | 730,000 | 941,000 |
| | | | Loan & advances | 453,000 | 688,000 |
| | | | Operational fixed assets | 100,000 | 106,800 |
| Total | 1,786,000 | 2,239,600 | Total | 1,786,000 | 2,239,600 |

Income Statement for the year ended December 31, 2010

| | | | |
|--------------------------|----------------|--------------------------|----------------|
| To Interest on deposits | 258,300 | By Interest & commission | 701,000 |
| To Salaries & allowances | 320,000 | By Dividend & brokerage | 74,700 |
| To stationery & printing | 90,650 | | |
| To Income tax paid | 15,200 | | |
| To Net profit | 91,550 | | |
| | 775,700 | | 775,700 |

| | | | |
|------------------|----------------|--------------------|----------------|
| To Reserve fund | 22,000 | By Net profit | 91,550 |
| To Dividend paid | 60,050 | By P/L account b/d | 70,500 |
| To Balance c/d | 80,000 | | |
| | <u>162,050</u> | | <u>162,050</u> |

Required:

Cash Flow Statement in proper format complying Company Act, NRB Directives and Accounting Standards [4 +3 +2 +1]

7. A Leather Factory located in a nearby community provides the following expenses relating to social loss and benefits for the year ending December 2010.

i. **Expenses made to provide benefits / facilities to the factory employees:**

| | |
|---|------------|
| Expenses relating to | |
| Medical & hospital facilities | Rs.175,340 |
| Education with childcare facilities | 74,200 |
| Sport & recreational facilities | 47,000 |
| Housing & transportation facilities with water, sanitation & electricity facilities | 341,380 |
| Employees career development retirement & leave facilities | 142,040 |

ii. **Expenses made to provide community facilities:**

| | |
|---|-----------|
| Expenses relating to | |
| Local & municipality taxes | Rs.96,000 |
| Community job enrichment & facility improvement | 158,400 |

iii. **Expenses made to provide benefit to general public:**

| | |
|---|------------|
| Expense relating to | Rs.186,000 |
| Tax paid to government | |
| Cost incurred to factory staff for voluntary work | 54,800 |
| to factory community because of higher learning cost due to present factory | 35,200 |
| to general public due consumption of government services | 114,6000 |

Required: Social Income Statement showing net social benefit to different parties [4 + 3 + 3]

8. Company Accountant prepared the Income Statement as follows:

**A Retail Company Income Statement
For the year ended Dec. 31, 2010**

| | | |
|--|--------|---------|
| | | Rs. |
| Net sales (sales less return & allowances) | | 670,000 |
| Less cost of goods sold | | 264,000 |
| Gross profit | | 406,000 |
| Less: Operating expenses: | | |
| Selling, distribution & general administrative expense | | 281,000 |
| Operating income | | 125,000 |
| Less/ Add other revenue (expenses) | | |
| Rent, interest, dividend & royalty income | 12,000 | |
| Interest expenses | 11,000 | 1000 |
| Less: Provision for income tax | | 63,000 |
| Net income after tax | | 63,000 |
| Statement of Retained earnings | | |
| Opening retained earnings | | 136,000 |
| Net income of the year | | 63,000 |
| Divisible income | | 199,000 |
| Less: Dividend declared & paid | | 89,000 |
| Retained earning at the end of the year | | 110,000 |

Required:

- Briefly explain the basic accounting concepts fulfilled by the income statement
- Explain in brief the nature of contains in the income statement

9. What are the basic objectives of financial reporting? Mention the disclosure required in financial as per accounting and financial reporting standard in Nepal. [7 + 8]
10. The balance sheets of Alpha Company and Beta Company as of Chaitra 31, 2067 are as follows:

| Liabilities | Alpha Rs. | Beta Rs. | Assets | Alpha Rs. | Beta Rs. |
|-------------------------------------|------------------|----------------|--------------------|------------------|----------------|
| Equity shares of Rs.100 each | 500,000 | 400,000 | Fixed assets | 600,000 | 350,000 |
| 10% Preference shares of s.100 each | 400,000 | 200,000 | Investment | 200,000 | 180,000 |
| General reserve | 150,000 | 100,000 | Stock | 170,000 | 120,000 |
| Account payable | 85,000 | 60,000 | Account receivable | 125,000 | 90,000 |
| Tax provision | 50,000 | 30,000 | Cash & bank | 90,000 | 50,000 |
| Total | 1,185,000 | 790,000 | Total | 1,185,000 | 790,000 |

Both the companies were amalgamated on Baisakh 1, 2068 and formed New Alpha-Beta Company to take over the business of the existing companies.

New Alpha-Beta Company issued 2 equity shares at Rs.115 per share of face value of Rs.100 for every equity share of Alpha Company and Beta Company.

The preference shareholders of each company were provided 2.5 equity shares a of face value of Rs.100 of New Alpha-Beta Company for every two 10% Preference shares of Alpha Company and Beta Company.

Required:

1. Purchase considerations of Alpha Company and Beta Company
2. Journal entries in the book of Alpha Company
3. Journal entries in the book of New Alpha-Beta Company
4. Balance sheet of New Alpha-Beta Company

[2 + 6 + 4 + 3 = 15]

OR

The financial statements of Gamma Company are as follows:

Profit & Loss Account
For the year ended Chaitra 31, 2067

| Particulars | Amount | Particulars | Amount |
|-----------------------|------------------|-------------------------|------------------|
| To opening stock | 400,000 | By Sales | 7,800,000 |
| To Purchases | 6,000,000 | By Closing stock | 540,000 |
| To Operating expenses | 680,000 | By Miscellaneous income | 300,000 |
| To Depreciation | 300,000 | | |
| To Interest | 500,000 | | |
| To Net profit c/d | 760,000 | | |
| Total | 8,640,000 | Total | 8,640,000 |
| To provision for tax | 344,000 | By Net profit b/d | 760,000 |
| To dividend | 300,000 | | |
| To Balance c/d | 116,000 | | |
| | 760,000 | | 760,000 |

Balance Sheet as on Chaitra 31, 2067

| Liabilities | 2066 Rs. | 2067 Rs. | Assets | 2066 Rs. | 2067 Rs. |
|-------------------|------------------|------------------|--------------------|------------------|------------------|
| Share capital | 1,500,000 | 1,500,000 | Fixed assets | 2,070,000 | 2,070,000 |
| Reserve & surplus | 200,000 | 316,000 | Less: | | |
| Long term loan | 500,000 | 400,000 | Depreciation | (600,000) | (900,000) |
| Account payable | 250,000 | 280,000 | Inventory | 400,000 | 540,000 |
| | | | Account receivable | 280,000 | 370,000 |
| | | | Cash | 300,000 | 416,000 |
| | 2,450,000 | 2,496,000 | | 2,450,000 | 2,496,000 |

The general price index of 2066 was 100 and 120 in 2067

Required: Financial Statements under Current Cost Accounting

[4+5+6=15]